



Advisory Board Meeting

Thursday, February 20, 2014
11:30 AM

Bradley Estate
2468B Washington Street
Canton, MA

Attendees (Voting Members)

David Manugian	Ashland	J. R. Greene	Gubernatorial	Peter Tassi	Reading
Peter Castanino	Belmont	William Hadlev	Lexington	John DeAmicis	Stoneham
John Sullivan	Boston	Katherine Dunphy	Milton	Carol Antonelli	Wakefield
Jav Hersev	Brookline	Thom Donahue	Nahant	Patrick Fasanello	Walpole
Tim MacDonald	Cambridge	Lou Taverna	Newton	Walter Woods	Welleslev
Michael Trotta	Canton	Bernie Cooper	Norwood	Joe Lobao	Wilmington
Andrew DeSantis	Chelsea				

Other Attendees

Michael Bishop	Belmont	Fred Laskev	MWRA	Lexi Dewev	WSCAC
Sam Corda	Cambridge	Kevin McCluskev	MWRA	Joseph Favaloro	AB Staff
F. DeCarvalho	Framingham	Kathy Soni	MWRA	Matthew Romero	AB Staff
Joseph Welch	Norwood	Rick Trubiano	MWRA	Cornelia Potter	AB Staff
Eric Sherman	Wakefield	Phil Jasset	UCANE	Travis Ahern	AB Staff
John Carroll	MWRA BOD	Patricia Jones	UUSC	Mary Ann McClellan	AB Staff
A. Pappastergion	MWRA BOD	Andreae Downs	WAC		

Thirty-eight people were in attendance, including nineteen voting members.

MINUTES APPROVED AT THE APRIL 17, 2014 MEETING

A. WELCOME

Chairman Katherine Haynes Dunphy called the MWRA Advisory Board meeting to order at 11:45 a.m.

B. PRESENTATION: RECOGNITION OF RICK TRUBIANO’S 29 YEARS OF SERVICE

Chairman Dunphy recognized MWRA Deputy Chief Operating Officer Richard Trubiano’s 29 years of service with the MWRA. Mr. Trubiano began his career with the MWRA in 1985. He has grown from a Project Engineer for residuals treatment, to Superintendent of the Clinton Wastewater Treatment Plant to his current position of Deputy Chief Operating Officer. Through all of his 29 years and his many responsibilities, he has served with honor and distinction. Chairman Dunphy stated, “on behalf of our communities and our ratepayers, we say thank you for a job well done.”

Mr. Trubiano stated he was thankful that he had the opportunity to earn his living while working on great projects and working with great people. He stated that he appreciated the professionalism and courtesy while working with the communities and wished members the best in the years ahead.

C. PRESENTATION: MWRA’S PROPOSED FY15 CIP AND CEB – MWRA Budget Director Kathy Soni

MWRA Budget Director Kathy Soni stated that the cities and towns are in the process of developing their next year’s budget, which will depend on some input from the MWRA. In December, the MWRA transmitted its Capital Improvement Program (CIP) and in February, its Current Expense Budget (CEB), to the MWRA Advisory Board for review. The Advisory Board will review and evaluate these documents and come up with its recommendations.

The proposed FY15 budget represents the lowest spending cap, which was established last year. After prioritizing projects and going through the capital program, staff was able to establish its capital spending cap for FY14-18 at less than \$800 million.

The overall assessment is standing at 3.6% and that is the number that was presented last year at this time representing the FY14 budget. As the Advisory Board pointed out, FY15 wasn't as challenging a year as FY17 and FY20 are projected to be. Staff needed to address these peaks that are driven by the debt service and are projected to result in significant rate increases. Specifically, last year staff projected an 8.5% increase for FY17 and for FY20, a 7% increase. Staff was able to shave those peaks somewhat for the proposed FY15 budget and will continue with those efforts to try to reduce the FY17 and FY20 projected increases.

FY17 is going to be the year that is going to begin a new era, in the sense that finally the MWRA will be able to see the light at the end of the tunnel. Debt has been, and is, the biggest challenge for the Authority, but with very conservative and prudent fiscal management and certain tools, specifically the defeasance concept, it is allowing Authority staff to manage the future assessment increases.

The MWRA has a long-standing rate assessment strategy and is taking a holistic approach. The Authority has significant liabilities staring at it in the future, particularly the pension funding and the other post-employment benefits (OPEB) funding. Staff is looking at these liabilities as "two sides of the same coin."

Staff is also focusing on any kind of cost-improvement initiatives; for the past five years, Direct Expenses have been level funded, however, energy and chemical prices are outside of the Authority's control.

The current expense side is at \$683 million and the proposed CIP for the next five years is at \$787.9 million. On the capital side, spending is at \$125 million for the next fiscal year. Spending from the first cap was at \$170 million per year; for the next cap, between FY14 to FY18, the annual spending is expected to be \$159 million. This recognizes the fact that the CSO Program is dwindling down and that asset protection and redundancy will be the major themes of the capital program.

The budget submitted to the Advisory Board did not have additional funding for the I/I program. The Advisory Board took up this initiative and the Operations and Executive Committees, after reviewing the program, put forth a proposal to increase the funding from the traditional amount of \$40 million to \$80 million per phase. This funding will be included in the final CIP budget. This change could certainly have cap implications. The approximate increase would be about \$44 million. MWRA and Advisory Board staff will be talking about exempting the local community assistance programs from the cap calculation.

Traditionally, spending for wastewater projects is larger than water projects; however, for FY15, water and wastewater spending are on a more level playing field. The "big spenders" in the budget are for asset protection and redundancy.

Some projects that may change the shape of the capital program going forward are the residuals contract at Fore River, which is running out in December 2015; co-digestion, which is the introduction of food waste into the digester process, there are a lot of unknowns with this project; and tunnel versus surface piping at the Sudbury Aqueduct.

On the CEB side, the multi-year rates management strategy has proven to be successful in the past couple of years. The preliminary water and sewer assessments are based on a wholesale rate increase of 3.6%.

Defeasance has proved to be a very successful endeavor. Because of the success of this concept, staff will continue with the defeasance account. Any surplus throughout the year will be placed into the defeasance account and these funds will be used to pay off bonds. The important thing is that staff can target a certain year. This year staff is projecting a surplus of approximately \$20 million. The majority of the surplus is coming

from the variable rate debt and this is the third year that the defeasance will be built into the next year's budget. With Board approval, \$18 million of those funds were targeted to FY17.

The Authority has different tools to address its long-term strategy, which include rate stabilization and bond redemption funds. Going into this year, the balance of those two accounts was \$72 million, with plans to utilize these funds during the next few years to 2022. Staff plans to use approximately \$8 to \$9 million from the rate stabilization fund for FY15.

The Authority has a self-imposed \$12 million threshold for the use of reserves because the rating agencies observe how much of the reserve funds are being used. Bond redemption funds have been budgeted at \$1.3 million. Variable rate debt is being budgeted at 3.25%, which is one of the reasons that there has been a surplus for the past couple of years.

Based on the latest actuarial required payments to the pension fund, \$7.8 million was deposited and the Authority included another \$4.8 million in additional funding based on an actuarial study of the OPEB projections.

No Debt Service Assistance was imbedded for FY15. Debt makes up 61% of the Authority's FY15 budget.

Direct expenses will increase by 1.8% for FY15. On the indirect side, the biggest increase was an addition to reserves, which is a technicality because the Authority must have one-sixth of the operating expenses in a reserve fund. For indirect expenses, the increase was about 2%.

Investment income continues to be lower because of the interest rates; however, there will be less funds to invest long term because of the bond indenture changes, which are projected to be in effect in FY16. That is why there is a significant decrease on the investment income side.

D. PRESENTATION: PROMOTING FROM WITHIN – MWRA'S ORGANIZATIONAL CHANGES – Fred Laskey, MWRA Executive Director

MWRA Executive Director Fred Laskey provided members with a memo describing the various personnel changes due to retirements and promotions. He noted that he spoke before the Advisory Board before to talk about succession planning and the wave of retirements that are coming at the MWRA. The future is now: Marcis Kempe recently retired; he had years of experience and invaluable knowledge. Now, Deputy Chief Operating Officer Richard Trubiano, Deer Island Wastewater Treatment Plant Director Daniel O'Brien and Chief Engineer Jae Kim have announced their retirements.

One of the hardest things is to try to ensure that the personnel decisions are done right and that we get the structure and the players right and that we never let down on the high standards that have been the hallmark of the Authority.

A couple of the strategic items that were within this plan are one, that there were too many eggs in Marcis Kempe's basket. Because of his talent and enthusiasm, he accumulated various functions under his umbrella. He had the water quality group, emergency preparedness/security, metering, SCADA, operations engineering, and informally, he was the Director of Waterworks and other functions that he dabbled with. An effort has been made to try to disperse some of those functions amongst other people.

The other strategic item is that historically, there has been a Director of Waterworks and that is the person who is the final say on how to run and configure the water system. When Mr. Laskey first came to the MWRA, that person was Bill Brutsch, who has since passed. Marcis inherited that function, all but title, and now he has retired. Other senior managers mostly come from the wastewater side. That sealed the deal in Mr. Laskey's mind that there needed to be a Director of Waterworks and that individual is David Coppes.

The other thing that was strategic in nature is that emergency preparedness and security were in the same group. Over the years, Mr. Laskey found that when there was a security issue, it at times distracted emergency preparedness planning and response people with whatever the incident had been. Security will now be given to one individual under the emergency preparedness umbrella to avoid that distraction.

Mr. Trubiano's replacement as Chief Operating Officer will be Carolyn Fiore, who headed the Toxic Reduction and Control (TRAC) Department. David Duest, the head of process control on Deer Island, will be replacing Dan O'Brien as the Director of the Deer Island Treatment Plant. John Colbert will be going to Deer Island as the Deputy Director. Andrew Hildick-Smith is taking over as Director of Emergency Preparedness; Victor L'Esperance will be the Deputy Director and will handle Security. Valerie Moran will be the Manager for Operations Engineering. Stephen Estes-Smargiassi will have added responsibilities with meter data, sustainability and energy functions. John Riccio will take over TRAC. The Board has accepted all of these personnel changes. There will be more to come, but these are the key pieces.

John Sullivan asked who is in charge of the water treatment plant now that Dave has moved up. Mr. Laskey said Mr. Duest is currently still in charge of the plant until his position can be backfilled.

Lou Taverna asked who will be replacing Jae Kim as Chief Engineer. Mr. Laskey said that is in process now. There are a number of good engineers in-house that will be up for the job.

E. COMMITTEE REPORTS

Finance Committee – Bernard Cooper

❖ ADVISORY BOARD FINANCIAL VIDEO – Travis Ahern, MWRA Advisory Board Finance and Policy Analyst

Matthew Romero noted that long-time members of the Advisory Board will remember the "green sheet," which was a financial publication that gave a "snapshot" of the MWRA's finances with a CEB/CIP update. It had gone by the way side and staff has been thinking of ways to revive and revitalize it, creating a new format, something that would be a bit "catchier" and something you could get a lot of information from quickly. Travis Ahern has put together a new version of the green sheet.

Finance and Policy Analyst Travis Ahern said this is a "flashier" version of a PowerPoint that is called Prezi. It allows you to zoom in and focus more on the numbers. It has also been converted to a video so that members can sit at their desks and play it or it can be played on a smart phone. Staff plans to keep the video short, under five minutes, to provide the financial highlights. Any feedback is appreciated. The Prezi video can be viewed at: <http://mwraadvisoryboard.com/2014/02/green-sheet-2-0/>.

Executive Committee – Katherine Haynes Dunphy

❖ LEGISLATIVE UPDATE

Mr. Favaloro said there is continuing discussion and movement on the water/sewer infrastructure financing bill. Important components for the Advisory Board will be more SRF funding, reimbursement for I/I, principal forgiveness for connection fees for communities that want to come into the MWRA waterworks system, and a 50/50 match for the entrance fee to come into the MWRA system, which is subject to appropriation. The Authority and the Advisory Board are working hard to get an infrastructure bill passed during this session.

Speaker DeLeo continues to be supportive and responsive toward some amount of Debt Service Assistance for FY15. As part of the FY14 budget, the \$1 million appropriated survived the 9c cuts, so the MWRA will be receiving its portion of those funds.

❖ PROCESS AND TIMELINE – ELECTION OF AN ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS

This year John Carroll is up for re-election to the MWRA Board of Directors. Mr. Carroll plans to run for another term. The Executive Committee will serve as the Nominating Committee if anyone is interested in running for this seat. The May meetings of the Executive Committee and Advisory Board will be utilized to have that vote. This is the one vote of the Advisory Board that is not a weighted vote; a quorum of 33 voting members must be present.

❖ UPCOMING WORKSHOP ON COMMUNITY WATER/WASTEWATER ENTERPRISE FUNDS

One of the components of the Sustainable Water Management Initiative (SWMI) that will also be a component of any infrastructure bill that is passed by the House and Senate is full cost-recovery systems and enterprise fund accounting for communities. Staff thought it would make good sense to have the Commonwealth come in to share its definition of an enterprise fund; then staff would work with communities to ensure that they meet that definition.

Mr. Favaloro said he has had some good discussions with DEP; at this juncture, they do not have a staff person working on this or an approach that they want to take. At this point, the Advisory Board has put a halt to this workshop until the Commonwealth is ready with its approach.

Operations Committee – Lou Taverna

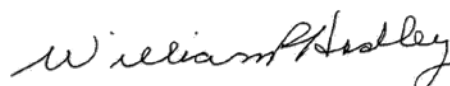
❖ UPDATE

Last month the Advisory Board voted on a significant expansion to the I/I Grant/Loan Program. As staff begins to put together its FY15 budget comments, also in line with language that is going to be included in an infrastructure bill from the Commonwealth of up to 10% of the line item to be used to reimburse the MWRA for the I/I Grant/Loan Program, staff can do it as part of its budget comments or as part of the Operations or Executive Committee meetings to take another look at the I/I program for Phases 9 and 10 to review the mix between grant and loan and changing the payment schedule to match the fact that the funds have been doubled, which could change the five-year repayment plan to a ten-year repayment plan.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:50 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,



William P. Hadley, Secretary